

ELIZABETHTOWN INDEPENDENT SCHOOL DISTRICT

**BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND INDEPENDENT AUDITOR'S REPORTS**

Year Ended June 30, 2005

ELIZABETHTOWN INDEPENDENT SCHOOL DISTRICT

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ELIZABETHTOWN INDEPENDENT SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Elizabethtown Independent School District
Elizabethtown, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Elizabethtown Independent School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements, as listed in the accompanying table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the Independent Auditor's Contract - General Audit Requirements, Appendix II of the Independent Auditor's Contract - State Audit Requirements, and Appendix III of the Independent Auditor's Contract - Electronic Submission. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 15, 2005, on our consideration of Elizabethtown Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis on pages 3 through 9, and the Budgetary Comparison Information on pages 37 through 38, are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Elizabethtown Independent School District's basic financial statements. The combining financial statements as listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Also, the accompanying Schedule of Expenditures of Federal Awards on pages 42 through 43 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Stiles, Carter & Associates

Certified Public Accountants
September 15, 2005

REQUIRED SUPPLEMENTARY INFORMATION

**ELIZABETHTOWN INDEPENDENT SCHOOL DISTRICT – ELIZABETHTOWN, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2005**

The discussion and analysis of Elizabethtown Independent School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to review the School District's financial performance as a whole; readers should also review the financial statements and notes to the financial statements to enhance their understanding of the School District's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in the Statement No. 34 *Basic Financial Statements and Management's Discussion and Analysis for State and Local governments* issued in June 1999.

FINANCIAL HIGHLIGHTS

- The ending cash balance for the District was \$6.2 million. The beginning cash balance for the District was \$6.9 million. The main reason for the decrease was the use of bond proceeds in renovating Elizabethtown High School.
- Following the completion of the District long-range plan for facilities, there is a focus on investing in plant management with the age and size of our facilities reflective of this need.
- The District completed the renovation of Elizabethtown High School.
- The District refunded the two 1996 bond issues which resulted in a net present value savings of \$110,997.
- Due to increases in interest rates, interest income rose \$40 thousand; that is an 18 percent increase.
- The General Fund had \$13.1 million in revenue, which primarily consisted of the state program (SEEK), property, utilities, and motor vehicle taxes. Excluding inter-fund transfers, there were \$12.9 million in General Fund expenditures.
- Bonds are issued as the District renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. The District's total debt decreased by \$186 thousand.

USING THIS ANNUAL REPORT

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 10 - 11 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. The only fiduciary funds are agency funds for student education. The only proprietary funds are our food service and childcare operations. All other activities of the District are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 12 - 20 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21 - 36 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$8.6 million at June 30, 2005.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and land improvements, buildings and improvements, vehicles, equipment and construction in progress), less any related debt used to acquire those assets that is outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net Assets for the periods ending June 30, 2005 and 2004
(Table 1)

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Current and Other Assets	\$ 6,432,748	\$ 7,220,096	\$ 298,901	\$ 254,497	\$ 6,731,649	\$ 7,474,593
Capital Assets	<u>12,851,227</u>	<u>12,222,479</u>	<u>313,225</u>	<u>317,150</u>	<u>13,164,452</u>	<u>12,539,629</u>
Total Assets	<u>19,283,975</u>	<u>19,442,575</u>	<u>612,126</u>	<u>571,647</u>	<u>19,896,101</u>	<u>20,014,222</u>
Long-term Debt	9,604,216	10,295,070	-	-	9,604,216	10,295,070
Other Liabilities	<u>1,703,662</u>	<u>1,726,665</u>	<u>13,570</u>	<u>13,490</u>	<u>1,717,232</u>	<u>1,740,155</u>
Total Liabilities	<u>11,307,878</u>	<u>12,021,735</u>	<u>13,570</u>	<u>13,490</u>	<u>11,321,448</u>	<u>12,035,225</u>
Net Assets						
Investment in capital assets (net of debt)	3,370,664	2,360,096	313,225	317,150	3,683,889	2,677,246
Restricted	2,303,470	2,606,183	-	-	2,303,470	2,606,183
Unrestricted	<u>2,301,963</u>	<u>2,454,561</u>	<u>285,331</u>	<u>241,007</u>	<u>2,587,294</u>	<u>2,695,568</u>
Total Net Assets	<u>\$ 7,976,097</u>	<u>\$ 7,420,840</u>	<u>\$ 598,556</u>	<u>\$ 558,157</u>	<u>\$ 8,574,653</u>	<u>\$ 7,978,997</u>

The following are significant current year transactions that have had an impact on the Statement of Net Assets.

The District completed the Elizabethtown High School renovation and issued refunding revenue bonds to refunding the two outstanding 1996 revenue bonds.

Comments on Budget Comparisons

- The District's total revenues for the fiscal year ended June 30, 2005, net of interfund transfers and bond proceeds were \$16.9 million.
- General fund budget compared to actual revenue varied slightly from line item to line item with the ending actual balance being \$2.3 million more than budget or approximately 22%. The variance is primarily explained by unbudgeted on-behalf payments made by the State of Kentucky in the amount of \$1.9 million.
- The total cost of all programs and services was \$16.7 million including debt service.
- General fund budget expenditures to actual varied significantly in Instruction and Other expenses. This resulted from the District not budgeting on-behalf payments made by the State of Kentucky as instructed by the Department of Education and not having to spend budgeted contingency funds.

The following Table 2 presents a summary of changes in net assets for the fiscal years ended June 30, 2005 and 2004.

(Table 2)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
REVENUES:						
Program revenues:						
Charges for services	\$ 263,919	\$ 110,045	\$ 381,761	\$ 393,511	\$ 645,680	\$ 503,556
Operating grants and contributions	2,109,805	2,644,217	550,962	490,718	2,660,767	3,134,935
Capital grants and contributions	144,186	209,203	-	-	144,186	209,203
General revenues:						
Property taxes	2,815,280	2,832,751	-	-	2,815,280	2,832,751
Motor vehicle taxes	209,956	224,216	-	-	209,956	224,216
Utility taxes	948,497	890,236	-	-	948,497	890,236
Investment earnings	255,091	217,484	10,491	8,867	265,582	226,351
State and formula grants	9,121,158	8,907,124	-	-	9,121,158	8,907,124
Miscellaneous	57,679	-	-	-	57,679	-
Gain (loss) on asset disposal	17,197	-	-	-	17,197	-
Total revenues	15,942,768	16,035,276	943,214	893,096	16,885,982	16,928,372
EXPENSES						
Program Activities						
Instruction	9,454,982	9,032,931	-	-	9,454,982	9,032,931
Student support	440,747	385,896	-	-	440,747	385,896
Instructional staff support	799,390	973,632	-	-	799,390	973,632
District administrative support	357,865	626,702	-	-	357,865	626,702
School administrative support	884,796	818,680	-	-	884,796	818,680
Business support	413,148	139,036	-	-	413,148	139,036
Plant operation and maintenance	1,940,892	1,741,043	-	-	1,940,892	1,741,043
Student transportation	412,609	393,681	-	-	412,609	393,681
Central office support	-	332,272	-	-	-	332,272
Facilities acquisition	108,642	91,376	-	-	108,642	91,376
Community service activities	148,140	248,780	-	-	148,140	248,780
Other	66,839	1,491	-	-	66,839	1,491
Interest costs	414,911	428,346	-	-	414,911	428,346
Business-type Activities:						
Food service	-	-	847,365	772,013	847,365	772,013
Total expenses	15,442,961	15,213,866	847,365	772,013	16,290,326	15,985,879
Transfers	55,450	(40,584)	(55,450)	40,584	-	-
Increase in net assets	\$ 555,257	\$ 780,826	\$ 40,399	\$ 161,667	\$ 595,656	\$ 942,493

Governmental Activities

Instruction comprises 61% of governmental program expenses. Support services expenses make up 35% of government expenses. The remaining expense for interest, facilities acquisition and other items accounts for the remaining 4% of total government expense.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

(Table 3)
Governmental Activities Total
Cost of Services

	Governmental Activities Total Cost of Services		Net Cost of Services	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Instruction	\$ 9,454,982	\$ 9,032,931	\$ 7,362,644	\$ 6,872,164
Support Services	5,397,587	5,659,722	5,116,201	5,177,509
Facility acquisition	108,642	91,376	108,642	(8,036)
Other expenses	66,839	1,491	66,839	
Interest costs	414,911	428,346	270,725	318,555
Total expenses	<u><u>\$ 15,442,961</u></u>	<u><u>\$ 15,213,866</u></u>	<u><u>\$ 12,925,051</u></u>	<u><u>\$ 12,360,192</u></u>

Business-Type Activities

The business-type activities include the food service operation. This program had total revenues of \$943,214 and expenses of \$847,365 for fiscal year 2005. Of the revenues, \$381,761 was charges for services, \$550,962 was from State and Federal grants and \$10,491 was from investment earnings. The food service operation also paid \$55,450 to the general fund for indirect costs. Business activities receive no support from tax revenues. The School District will continue to monitor the charges and costs of this activity. If it becomes necessary, the School District will increase the charges for this activity.

The School District's Funds

Information about the School District's major funds starts on page 12. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$19,175,519 and expenditures and other financing uses of \$19,807,433. Net changes in fund balances for the year were most significant in the Construction Fund which decreased \$1,270,709.

The decrease in Construction Fund was due to the use of bond proceeds for the Elizabethtown High School renovation.

General Fund-Budget Highlights

The School District's budget is prepared according to Kentucky law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund. The State Department of Education requires a zero-based budget with any budgeted remaining fund balance shown as a contingency expense in the budget process.

For the General Fund, revenues were budgeted at \$10,674,340 with actual amounts of \$13,073,107. Budgeted expenditures of \$12,814,287 compare with actual expenditures of \$12,939,520. The most significant fluctuation is for on-behalf payments of \$ 1,899,819. If on-behalf payments were not included in revenues, revenues would be \$11,173,288, which is \$ 498,948 over budget. If on-behalf payments were not included in expenditures, expenditures would be \$11,039,701, which is \$1,774,586 under budget.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2005 the School District had \$13,164,452 invested in land, buildings, equipment, and construction in progress, and \$12,851,227 in governmental activities. Table 4 shows fiscal year 2005 and 2004 balances.

(Table 4)
Capital Assets at June 30, 2005 and 2004
(Net of Depreciation)

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Land and land improvements	\$ 472,911	\$ 459,956	\$ -	\$ -	\$ 472,911	\$ 459,956
Buildings and improvements	11,834,842	7,976,608	74,183	80,741	11,909,025	8,057,349
Technology	217,542	274,127	21,331	-	238,873	274,127
Vehicles	166,670	218,990	-	-	166,670	218,990
General equipment	159,262	188,654	217,711	236,409	376,973	425,063
Total	12,851,227	9,118,335	313,225	317,150	13,164,452	9,435,485
Construction in progress	-	3,104,144	-	-	-	3,104,144
Total	<u>\$ 12,851,227</u>	<u>\$ 12,222,479</u>	<u>\$ 313,225</u>	<u>\$ 317,150</u>	<u>\$ 13,164,452</u>	<u>\$ 12,539,629</u>

Table 5 shows changes in capital assets for the years ended June 30, 2005 and 2004.

(Table 5)
Change in Capital Assets

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Beginning balance	\$ 12,222,479	\$ 9,820,902	\$ 317,150	\$ 165,757	\$ 12,539,629	\$ 9,986,659
Additions	5,748,882	5,044,786	39,063	186,866	5,787,945	5,231,652
Retirements	(4,378,876)	(1,876,357)	-	-	(4,378,876)	(1,876,357)
Depreciation	(741,258)	(766,852)	(42,988)	(35,473)	(784,246)	(802,325)
Ending balance	<u>\$ 12,851,227</u>	<u>\$ 12,222,479</u>	<u>\$ 313,225</u>	<u>\$ 317,150</u>	<u>\$ 13,164,452</u>	<u>\$ 12,539,629</u>

Debt

At June 30, 2005, the School District had \$9,724,000 in bonds outstanding, of this amount \$1,470,199 is to be paid from the KSFCC funding provided by the State of Kentucky. A total of \$446,000 is due within one year. The District issued \$2,459,000 of refunding revenue bonds in June 2005 to partially advance refund the two outstanding 1986 issues.

District Challenges for the Future

Elizabethtown Independent School District's financial status has remained steady during the last fiscal year. This improvement was the result of two major factors, student growth and a reduction of expenditures. However, as we look forward, we expect unfunded mandates to have an impact on our District.

The School District has experienced an annual growth in student enrollment. However, average daily attendance continues to decrease. The School District has continued to modernize existing facilities by renovating and adding to existing schools. These renovated facilities come with increased utility costs and additional personnel cost (both administrative and support staffs). These facilities also have a cost for computers, library books, instructional materials, and other items that are primarily paid from the General Fund. These costs along with the need to add or renovate additional buildings in the next few years will create more challenges for the School District. An increase in expenditures due to unfunded mandates, the price of utilities and an increase in spending in instructional programs will continue to decrease the amount of contingency funds available.

The costs associated with growth have in the past been offset due to increased student enrollment producing additional state funding, and continued increases in business and residential property subject to tax within the School District. Our property tax base continues to grow; however our School District, like all Kentucky School Districts, is limited to a 4% annual growth in property tax revenue on existing property.

Additional factors concerning our School District's financial status include the implementation of various unfunded mandates. Examples include the Flex Fund accounts (Professional Development, Safe Schools, Preschool, Textbooks and Extended School Services). State funding for these programs does not meet our instructional needs as a District. Therefore, local generated funds will have to address these areas. Also, the uncertainty of state budgeted revenue projections may impact our funding as well as future mandated salary increases for all certified personnel. In addition, the full effect of No Child Left Behind (NCLB) has yet to be determined. Funding for this program is not equal to the mandates required by the Federal Government.

With careful planning and monitoring of our finances, Elizabethtown Independent Schools' goal is to continue to provide a quality education for our students and a secure financial future for the School District.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any question about this report or need additional information contact Denise Morgan, Director of Finance, 219 Helm Street, Elizabethtown, Kentucky 42701, (270) 765-6146.

BASIC FINANCIAL STATEMENTS

ELIZABETHTOWN INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2005

Assets	Governmental Activities	Business- Type Activities	Total
Current Assets			
Cash and cash equivalents	\$ 5,874,959	\$ 284,796	\$ 6,159,755
Inventory		14,105	14,105
Accounts receivable:			
Taxes-current	94,588		94,588
Accounts receivable	11,523		11,523
Intergovernmental-State	39,685		39,685
Intergovernmental-Indirect Federal	218,287		218,287
Prepaid expenses	182,096		182,096
Due from other funds	11,610		11,610
Total Current Assets	6,432,748	298,901	6,731,649
Noncurrent Assets			
Capital assets	23,728,487	935,086	24,663,573
Less: accumulated depreciation	(10,877,260)	(621,861)	(11,499,121)
Total Noncurrent Assets	12,851,227	313,225	13,164,452
Total Assets	19,283,975	612,126	19,896,101
Liabilities			
Current Liabilities			
Accounts payable	555,814	1,960	557,774
Accrued payroll and related expenses	32		32
Due to other funds		11,610	11,610
Deferred revenue	125,496		125,496
Vacation leave	105,342		105,342
Current portion of bond obligations	446,000		446,000
Current portion of capital lease obligations	36,325		36,325
Current portion of accrued sick leave	263,990		263,990
Interest payable	170,663		170,663
Total Current Liabilities	1,703,662	13,570	1,717,232
Noncurrent Liabilities			
Noncurrent portion of bond obligations	9,278,000		9,278,000
Less: Deferred amount on refunding	(151,627)		(151,627)
Less: Bond discount and expense	(211,203)		(211,203)
Noncurrent portion of capital lease obligations	73,068		73,068
Noncurrent portion of accrued sick leave	615,978		615,978
Total Noncurrent Liabilities	9,604,216	-	9,604,216
Total Liabilities	11,307,878	13,570	11,321,448
Net Assets			
Invested in capital assets, net of related debt	3,370,664	313,225	3,683,889
Restricted for:			
Capital projects	2,049,006		2,049,006
Debt service	254,464		254,464
Unrestricted	2,301,963	285,331	2,587,294
Total Net Assets	\$ 7,976,097	\$ 598,556	\$ 8,574,653

See accompanying notes to financial statements.

ELIZABETHTOWN INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2005

FUNCTIONS/PROGRAMS

Governmental Activities:

	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
	Charges For Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business- Type Activities	Total
Instruction	\$ 9,454,982	\$ 263,919	\$ -	\$ (7,362,644)	\$ -	\$ (7,362,644)
Support services:						
Student	440,747	20,515		(420,232)		(420,232)
Instruction staff	799,390	90,569		(708,821)		(708,821)
District administrative	357,865	5,733		(352,132)		(352,132)
School administrative	884,796			(884,796)		(884,796)
Business	413,148			(413,148)		(413,148)
Plant operation and maintenance	1,940,892			(1,940,892)		(1,940,892)
Student transportation	412,609	16,429		(396,180)		(396,180)
Facilities acquisition and construction	108,642			(108,642)		(108,642)
Community service activities	148,140	148,140		-		-
Other	66,839			(66,839)		(66,839)
Interest on long-term debt	414,911		144,186	(270,725)		(270,725)
Total Governmental Activities	15,442,961	2,109,805	144,186	(12,925,051)	-	(12,925,051)

Business-Type Activities:

Food service	847,365	381,761	550,962		85,358	85,358
Total Business-Type Activities	847,365	381,761	550,962	-	85,358	85,358
Total Primary Government	\$ 16,290,326	\$ 645,680	\$ 2,660,767	\$ (12,925,051)	\$ 85,358	\$ (12,839,693)

General Revenues:

Taxes:						
Property taxes	\$ 2,815,280			\$ -		\$ 2,815,280
Motor vehicle taxes	209,956					209,956
Utility taxes	948,497					948,497
Investment earnings	255,091				10,491	265,582
State and formula grants	9,121,158					9,121,158
Gain (loss) on asset disposal	17,197					17,197
Miscellaneous	57,679					57,679
Transfers	55,450				(55,450)	-
Total general revenues	13,480,308				(44,959)	13,435,349
Change in net assets	555,257				40,399	595,656
Net assets - beginning	7,420,840				558,157	7,973,997
Net assets - ending	\$ 7,976,097				\$ 598,556	\$ 8,569,653

See accompanying notes to financial statements.

FUND FINANCIAL STATEMENTS

ELIZABETHTOWN INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2005

	General Fund	Special Revenue	Capital Outlay	FSPK Fund	Construction Fund	Other Governmental Funds- Debt Service	Total Governmental Funds
Assets and Resources:							
Cash and cash equivalents	\$ 3,470,232	\$ -	\$ 899,964	\$ 1,073,120	\$ 237,884	\$ 271,411	\$ 5,952,611
Accounts receivable:							
Taxes - current	92,758			1,830			94,588
Accounts receivable	1,160	10,363					11,523
Intergovernmental - State		39,685					39,685
Intergovernmental - Indirect Federal		218,287					218,287
Prepaid expenses	182,096						182,096
Due from other funds	11,610						11,610
Total Assets and Resources	<u>\$ 3,757,856</u>	<u>\$ 268,335</u>	<u>\$ 899,964</u>	<u>\$ 1,074,950</u>	<u>\$ 237,884</u>	<u>\$ 271,411</u>	<u>\$ 6,510,400</u>
Liabilities and Fund Balances:							
Liabilities							
Accounts payable	\$ 297,941	\$ 6,921	\$ -	\$ -	\$ 163,792	\$ 16,947	\$ 485,601
Cash overdraft		77,652					77,652
Accrued payroll and related expenses	32						32
Deferred revenue	38,645	86,851					125,496
Total Liabilities	<u>336,618</u>	<u>171,424</u>	<u>-</u>	<u>-</u>	<u>163,792</u>	<u>16,947</u>	<u>688,781</u>
Fund Balances							
Reserved for:							
Debt service						254,464	254,464
Construction					74,092		74,092
SFCC Escrow			899,964	1,074,950			1,974,914
Unreserved:							
Designated for construction	1,460,000						1,460,000
Undesignated, reported in:							
General fund	1,961,238						1,961,238
Special revenue funds		96,911					96,911
Total Fund Balances	<u>3,421,238</u>	<u>96,911</u>	<u>899,964</u>	<u>1,074,950</u>	<u>74,092</u>	<u>254,464</u>	<u>5,821,619</u>
Total Liabilities and Fund Balances	<u>\$ 3,757,856</u>	<u>\$ 268,335</u>	<u>\$ 899,964</u>	<u>\$ 1,074,950</u>	<u>\$ 237,884</u>	<u>\$ 271,411</u>	<u>\$ 6,510,400</u>

See accompanying notes to financial statements.

ELIZABETHTOWN INDEPENDENT SCHOOL DISTRICT

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS

June 30, 2005

Total fund balance per fund financial statements	\$ 5,821,619
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Amounts reported for governmental activities in the statement of net
assets are different because:

Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net assets.	12,851,227
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Certain liabilities (such as bonds and capital leases, certain payables, accrued sick leave, vacation, and accrued interest) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net assets.	<u>(10,696,749)</u>
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Net assets for governmental activities	<u><u>\$ 7,976,097</u></u>
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See accompanying notes to financial statements.

ELIZABETHTOWN INDEPENDENT SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

Year Ended June 30, 2005

	General Fund	Special Revenue	Capital Outlay	FSPK Fund	Construction Fund	Other Governmental Funds- Debt Service	Total Governmental Funds
Revenues:							
From local sources:							
Taxes:							
Property	\$ 2,301,008	\$ -	\$ -	\$ 514,272	\$ -	\$ -	\$ 2,815,280
Motor vehicle	188,960			20,996			209,956
Utilities	948,497						948,497
Tuition and fees	240,678						240,678
Earnings on investments	184,562	2,503	28,081	29,031	5,394	5,520	255,091
Other local revenues	80,778	34,676		142			115,596
Intergovernmental - State	9,121,158	556,412	209,380	344,301		144,186	10,375,437
Intergovernmental - Indirect Federal		957,570					957,570
Intergovernmental - Direct Federal	7,466						7,466
Total Revenues	13,073,107	1,551,161	237,461	908,742	5,394	149,706	15,925,571
Expenditures:							
Instruction	8,124,519	1,306,652					9,431,171
Support services:							
Student	419,392	20,515					439,907
Instruction staff	706,588	90,569					797,157
District administrative	580,705	5,733					586,438
School administrative	884,200						884,200
Business	412,672						412,672
Plant operation and maintenance	1,390,967						1,390,967
Student transportation	377,729	16,429					394,158
Facilities acquisition and construction					1,312,252		1,312,252
Community service activities		148,140					148,140
Other	42,768						42,768
Bond issue costs						32,210	32,210
Debt service:							
Principal						380,000	380,000
Interest						411,220	411,220
Total Expenditures	12,939,540	1,588,038	-	-	1,312,252	823,430	16,663,260
Excess (Deficit) of Revenues over Expenditures	133,567	(36,877)	237,461	908,742	(1,306,858)	(673,724)	(737,689)
Other Financing Sources (Uses):							
Proceeds from refunding bonds						2,459,000	2,459,000
Payment to bond escrow agent						(2,389,086)	(2,389,086)
Bond discount						(37,694)	(37,694)
Proceeds from sale of fixed assets	18,105						18,105
Operating transfers in	55,450	35,000			36,149	646,244	772,843
Operating transfers out	(35,000)			(682,393)			(717,393)
Total Other Financing Sources (Uses)	38,555	35,000	-	(682,393)	36,149	678,464	105,775
Excess (Deficit) of Revenue and Other Financing Sources over Expenditures and Other Financing Uses	172,122	(1,877)	237,461	226,349	(1,270,709)	4,740	(631,914)
Fund Balance, July 1, 2004	3,249,116	98,788	662,503	848,601	1,344,801	249,724	6,453,533
Fund Balance, June 30, 2005	\$ 3,421,238	\$ 96,911	\$ 899,964	\$ 1,074,950	\$ 74,092	\$ 254,464	\$ 5,821,619

ELIZABETHTOWN INDEPENDENT SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2005

Net change in total fund balances per fund financial statements	\$ (631,914)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds depreciation expense for the year.	559,441
The proceeds for the issuance of bonds provide current financial resources and are reported in this fund financial statement but they are presented as liabilities in the statement of net assets.	(2,265,000)
Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net assets.	2,698,240
In the statement of activities, only the gain (loss) on sale of fixed assets is reported, whereas in the governmental funds, the proceeds for the sale changed financial resources.	(907)
Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.	<u>195,397</u>
Change in net assets of governmental activities	<u>\$ 555,257</u>

See accompanying notes to financial statements.

ELIZABETHTOWN INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

June 30, 2005

	Food Service Fund
Assets	
<u>Current Assets</u>	
Cash and cash equivalents	\$ 284,796
Inventory	14,105
Total Current Assets	<u>298,901</u>
<u>Noncurrent Assets</u>	
Capital assets	935,086
Less: accumulated depreciation	<u>(621,861)</u>
Total Noncurrent Assets	<u>313,225</u>
Total Assets	<u>612,126</u>
Liabilities	
<u>Current Liabilities</u>	
Accounts payable	1,960
Due to other funds	<u>11,610</u>
Total Current Liabilities	<u>13,570</u>
Net Assets	
Invested in capital assets, net of related debt	313,225
Unrestricted	<u>285,331</u>
Total Net Assets	<u>\$ 598,556</u>

See accompanying notes to financial statements.

ELIZABETHTOWN INDEPENDENT SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

PROPRIETARY FUNDS

Year Ended June 30, 2005

	Food Service Fund
Operating Revenues:	
Lunchroom sales	\$ 375,303
Other operating revenues	6,458
Total Operating Revenues	381,761
Operating Expenses:	
Salaries and wages	317,651
Materials and supplies	458,012
Depreciation	42,988
Other operating expenses	28,714
Total Operating Expenses	847,365
Operating loss	(465,604)
Non-Operating Revenues (Expenses):	
Federal grants	491,223
Donated commodities	47,139
State grants	12,600
Interest income	10,491
Total Non-Operating Revenues (Expenses)	
Before Transfers	561,453
Transfers out	(55,450)
Change in net assets	40,399
Net Assets, July 1, 2004	558,157
Net Assets, June 30, 2005	\$ 598,556

See accompanying notes to financial statements.

ELIZABETHTOWN INDEPENDENT SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

Year Ended June 30, 2005

	Food Service Fund
Cash Flows from Operating Activities	
Cash received from:	
Lunchroom sales	\$ 375,303
Other activities	6,458
Cash paid to/for:	
Employees	(317,651)
Supplies	(408,678)
Other activities	(28,714)
Net Cash Used by Operating Activities	(373,282)
Cash flows from Non-Capital and Related Financing Activities	
Federal grants	491,223
State grants	12,600
Transfers to other funds	(55,450)
Net Cash Provided by Non-Capital and Related Financing Activities	448,373
Cash Flows from Capital and Related Financing Activities	
Purchases of capital assets	(39,062)
Net Cash Used by Capital and Related Financing Activities	(39,062)
Cash Flows from Investing Activities	
Receipt of interest income	10,491
Net increase in cash and cash equivalents	46,520
Balances, beginning of year	238,276
Balances, end of year	\$ 284,796
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (465,604)
Adjustments to reconcile operating loss to net cash (used) by operating activities:	
Depreciation	42,988
Donated commodities	47,139
Change in assets and liabilities:	
Inventory	2,115
Accounts payable	(170)
Due to other funds	250
Net cash used by operating activities	\$ (373,282)
Schedule of non-cash transactions:	
Donated commodities received from federal government	\$ 47,139

See accompanying notes to financial statements.

ELIZABETHTOWN INDEPENDENT SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

June 30, 2005

	Private Purpose Trust Funds	Agency Fund
Assets		
Cash and cash equivalents	\$ 58,477	\$ 148,895
Total Assets	<u>58,477</u>	<u>148,895</u>
Liabilities		
Accounts payable		5,461
Due to student groups		143,434
Total Liabilities	<u>-</u>	<u>148,895</u>
Net Assets Held in Trust	<u>\$ 58,477</u>	<u>\$ -</u>

See accompanying notes to financial statements.

ELIZABETHTOWN INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

Year Ended June 30, 2005

	Private Purpose Trust Funds
Additions	
Net interest and investment gains	\$ 2,374
Deductions	
Scholarships paid	(32,368)
Change in net assets	(29,994)
Net Assets, July 1, 2004	<u>88,471</u>
Net Assets, June 30, 2005	<u><u>\$ 58,477</u></u>

See accompanying notes to financial statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS

ELIZABETHTOWN INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Elizabethtown Independent Board of Education ("Board"), a five-member group, is the level of government, which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Elizabethtown Independent Board of Education ("District"). The District receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies, which may influence operations and primary accountability for fiscal matters. As allowed in Section P80 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, the District has elected not to apply to its proprietary activities Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Elizabethtown Independent Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Elizabethtown Independent Board of Education Finance Corporation – In a prior year, the Board of Education resolved to authorize the establishment of the Elizabethtown Independent School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the "Corporation") as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation's Board of Directors. The Corporation is blended into the District's financial statements.

Basis of Presentation

The District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements – The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

ELIZABETHTOWN INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The statement of net assets presents the financial condition of the governmental and business-type activities of the District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in fund balances. Proprietary funds are reported using the economic resources measurement focus. All assets and liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases and decreases in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities. Fiduciary funds are also reported using the economic resources measurement focus.

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund.
- (B) The Special Revenue Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on pages 42 through 43. This is a major fund.

ELIZABETHTOWN INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
 - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan. This is a major fund.
 - 2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan. This is a major fund.
 - 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund.
- (D) The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable, as required by Kentucky Law.

II. Proprietary Fund Types (Enterprise Fund)

The Food Service Fund is used to account for school food service activities, including the National School Lunch and Breakfast Programs, which are conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund.

III. Fiduciary Fund Type (Agency Fund)

- A. The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.
- B. The Private Purpose Trust Funds are used to report trust arrangements under which principal and income benefit individuals, private organizations or other governments.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

ELIZABETHTOWN INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

Basis of Accounting - continued

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Property Taxes

Property Tax Revenues – Property taxes are normally levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund. The usual collection date is the period from November 1 through December 31. Property tax bills paid prior to December 1 received a two percent discount. Property taxes received after December 31, are considered to be delinquent and the County Attorney can file a lien against the property.

ELIZABETHTOWN INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

The property tax rates assessed for the year ended June 30, 2005, to finance operations were \$.540 per \$100 valuation for real property, \$.562 per \$100 valuation for business personal property and \$.538 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial and mixed gas.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of, normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	20 years
Buildings and improvements	25-50 years
Technology equipment	5 years
Vehicles	5-10 years
General equipment	5-15 years
Food service equipment	5-12 years

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

ELIZABETHTOWN INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. All budget appropriations lapse at year-end.

Encumbrances

Encumbrances are not liabilities and, therefore, are not reported as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are reappropriated in the next year. A reservation of fund balance equal to outstanding encumbrances at year-end is provided for at June 30, 2005.

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Inventories

On government-wide financial statements inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

The food service fund uses the specific identification method and the general fund uses the first-in, first-out method.

Prepaid Assets

Payments made that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Receivables

The District recognizes revenues as receivable when they are measurable and receipt is probable. Concentration of credit risk with respect to the receivables from federal and state governments is limited due to the historical stability of those institutions.

ELIZABETHTOWN INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Accrued Liabilities and Long-Term Obligations

All payables accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance/net assets indicates that portion of fund equity, which is available for appropriation in future periods. Fund equity reserves have been established for School Facilities Construction Commission escrows, Construction Fund unspent funds and Debt Service Fund cash. The District has designated \$1,460,000, of general fund fund equity for future construction.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools and for childcare services provided.

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

ELIZABETHTOWN INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

NOTE B – ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C – CASH AND CASH EQUIVALENTS

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy is to have all deposits secured by pledged securities. At June 30, 2005, none of the District's bank balance of \$7,299,778 was exposed to custodial credit risk.

ELIZABETHTOWN INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE D - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

Governmental Activities	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
Non-Depreciable Assets:				
Land	\$ 227,795	\$ 40,000	\$ -	\$ 267,795
Construction in progress	3,104,144	1,273,824	(4,377,968)	-
Depreciable Assets:				
Land improvements	547,853			547,853
Buildings and improvements	14,841,174	4,377,968		19,219,142
Technology equipment	2,677,421	57,090	(501,995)	2,232,516
Vehicles	849,581			849,581
General equipment	611,600			611,600
Totals at historical cost	22,859,568	5,748,882	(4,879,963)	23,728,487
Accumulated depreciation:				
Land improvements	315,692	27,045		342,737
Buildings and improvements	6,864,566	519,734		7,384,300
Technology equipment	2,403,294	112,767	(501,087)	2,014,974
Vehicles	630,591	52,320		682,911
General equipment	422,946	29,392		452,338
Total accumulated depreciation	10,637,089	741,258	(501,087)	10,877,260
Government Activities Capital Assets - Net	<u>\$ 12,222,479</u>	<u>\$ 5,007,624</u>	<u>\$ (4,378,876)</u>	<u>\$ 12,851,227</u>
Business-Type Activities				
Buildings and improvements	339,450			339,450
Technology equipment		22,967		22,967
Food service equipment	556,573	16,096		572,669
Totals at historical cost	896,023	39,063	-	935,086
Accumulated depreciation:				
Buildings and improvements	258,709	6,558		265,267
Technology equipment		1,636		1,636
Food service equipment	320,164	34,794		354,958
Total accumulated depreciation	578,873	42,988	-	621,861
Government Activities Capital Assets - Net	<u>\$ 317,150</u>	<u>\$ (3,925)</u>	<u>\$ -</u>	<u>\$ 313,225</u>
Depreciation was charged to governmental functions as follows:				
Instruction	\$ 137,488			
Student support	839			
Instructional staff	2,234			
District administration	1,011			
School administration	596			
Business support	476			
Plant	549,924			
Transportation	48,690			
	<u>\$ 741,258</u>			

ELIZABETHTOWN INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE E – LONG-TERM OBLIGATIONS

The original amount of each issue, the issue date, and interest rates are summarized below:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
1987	\$ 390,000	4.00% - 6.40%
1993	2,200,000	2.70% - 5.35%
1996A	2,865,000	4.25% - 5.007%
1996B	920,000	4.30% - 5.75%
1998	850,000	4.25% - 4.95%
2003 Refunding	1,605,000	1.05% - 3.10%
2003 EHS	4,510,000	1.00% - 4.85%
2005A Refunding	1,870,000	2.80% - 3.65%
2005B Refunding	589,000	2.80% - 3.65%

On June 22, 2005, the District issued \$1,870,000 in Refunding Revenue Bonds with an average interest rate of 3.19 percent to partially advance refund \$1,740,000 of outstanding 1996 Series revenue bonds with an average interest rate of 4.6 percent. The refunding was a partial advance refunding and \$460,000 of the 1996 Series bonds remained outstanding. The net proceeds of \$1,830,991 (after \$42,766 in bond discount and \$3,757 in accrued interest which was deposited in the bond payment fund) were used to purchase U.S. Government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded portion of the 1996 Series bonds. As a result, that portion of the 1996 Series bonds is considered defeased and the District has removed the liability from its accounts. The outstanding principal of the defeased bonds is \$1,740,000 at June 30, 2005.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$87,234. This difference, reported in the accompanying government-wide financial statements as a deduction from bonds payable, is being charged to operations through the year 2017 using the effective-interest method.

The District completed the refunding to reduce its total debt service payments over the next 12 years by \$100,069 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$84,083.

On June 22, 2005, the District issued \$589,000 in Refunding Revenue Bonds with an average interest rate of 3.19 percent to partially advance refund \$525,000 of outstanding 7/1/1996 Series revenue bonds with an average interest rate of 5.0 percent. The refunding was a partial advance refunding and \$130,000 of the 1996 Series bonds remained outstanding. The net proceeds of \$562,990 (after \$27,147 in bond discount and \$1,137 in accrued interest which was deposited in the bond payment fund) were used to purchase U.S. Government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded portion of the 7/1/1996 Series bonds. As a result, that portion of the 7/1/1996 Series bonds is considered defeased and the District has removed the liability from its accounts. The outstanding principal of the defeased bonds is \$525,000 at June 30, 2005.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$36,853. This difference, reported in the accompanying government-wide financial statements as a deduction from bonds payable, is being charged to operations through the year 2017 using the effective-interest method.

ELIZABETHTOWN INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE E – LONG-TERM OBLIGATIONS – CONTINUED

The District completed the refunding to reduce its total debt service payments over the next 12 years by \$30,827 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$26,914.

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Elizabethtown Independent School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The District has "participation agreements" with the Kentucky School Facilities Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2005, for debt service (principal and interest) are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Participation</u>	<u>District's Portion</u>
2005-06	\$ 446,000	\$ 452,009	\$ 157,441	\$ 740,588
2006-07	438,000	467,582	157,413	748,169
2007-08	443,000	453,131	150,976	745,155
2008-09	454,000	438,374	150,170	742,204
2009-10	467,000	419,764	149,216	737,548
2011-15	2,578,000	1,673,206	700,289	3,550,917
2016-20	2,613,000	811,562	417,114	3,007,448
2021-25	<u>2,285,000</u>	<u>209,563</u>	<u>163,219</u>	<u>2,331,344</u>
	<u>\$ 9,724,000</u>	<u>\$ 4,925,191</u>	<u>\$ 2,045,838</u>	<u>\$ 12,603,353</u>

ELIZABETHTOWN INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE E – LONG-TERM OBLIGATIONS - CONTINUED

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund. The noncurrent portion of the liability is not reported.

Long-term liability for the year ended June 30, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:					
Revenue bonds payable	\$ 9,910,000	\$2,459,000	\$2,645,000	\$ 9,724,000	\$ 446,000
Vacation leave	121,929	-0-	16,587	105,342	105,342
Accrued sick leave	<u>1,109,552</u>	<u>68,094</u>	<u>298,678</u>	<u>878,968</u>	<u>263,990</u>
Governmental Activities:					
Long-term liabilities	<u>\$11,141,481</u>	<u>\$2,527,094</u>	<u>\$2,960,265</u>	<u>\$10,708,310</u>	<u>\$ 815,332</u>

The debt service fund is primarily responsible for paying the bond obligations through funding from the capital outlay and FSPK funds. The general fund is primarily responsible for paying accrued sick leave.

ELIZABETHTOWN INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE F – CAPITAL LEASE PAYABLE - CONTINUED

The following is an analysis of the leased property under capital lease by class:

<u>Classes of Property</u>	<u>Book value as of June 30, 2005</u>
Buses and energy project	\$ 161,818

The following is a schedule by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2005:

<u>Year Ending June 30,</u>	<u>Capital Lease Payable</u>
2006	\$ 42,246
2007	39,097
2008	<u>38,958</u>
Total minimum lease payments	120,301
Less: Amount representing interest	<u>(10,908)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 109,393</u>

NOTE G – RETIREMENT PLANS

All the District's eligible employees participate in the Kentucky Teacher's Retirement System (KTRS), a statewide multiple-employer public employee retirement system covering all employees of local school districts within the State of Kentucky. KTRS is a cost sharing public employee retirement system with one exception: all risks and costs are not shared by the District but are the liability of the State of Kentucky. KTRS is funded through state and employee contributions and the District has no legal obligation for paying benefits. As discussed below, the District may be required in certain situations to make limited contributions on behalf of certain employees.

The State of Kentucky contributes 13.105% of the employee's gross earnings except for those District employees being paid from and participating in federally funded programs. During the year, contributions of \$990,122 were made by the State of Kentucky and \$57,920 in contributions were passed through the District's federally funded programs. Contributions by the employees are 9.855% of gross earnings and are withheld by the District. Such withholdings totaled \$788,131 during the year and were paid by the District to the State of Kentucky. The District has no other liability under the plan. The District's total payroll for all employees during the year was \$10,153,505, and \$7,997,274 of such amount related to employees covered by the retirement plan.

ELIZABETHTOWN INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE G— RETIREMENT PLANS – CONTINUED

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System (CERS). Funding for the Plan is provided through payroll withholdings of 5% and a District contribution of 8.48% of the employee's total compensation subject to contribution. The District's contribution requirement for CERS for the year ended June 30, 2005 was \$272,229, which consisted of \$171,253 from the District and \$100,976 from the employees. The total covered payroll for CERS during the year was \$2,019,494. Benefits under both plans will vary based on final compensation, years of service and other factors as fully described in the Plan documents.

Additional information and historical trend information can be obtained from the separately issued Teacher Retirement System of Kentucky Comprehensive Annual Financial Report.

Deferred Compensation

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all employees, permits them to defer a portion of their salary until future years. This deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, allows entities with little or no administrative involvement who do not perform the investing function for these plans to omit plan assets and related liabilities from their financial statements. The Board therefore does not show these assets and liabilities on this financial statement.

NOTE H – COMMITMENTS

During the year ended June 30, 2005, the Board participated in construction contracts for the renovation of Elizabethtown High School.

NOTE I - CONTINGENCIES

The District receives funding from Federal, State and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor's review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

NOTE J - LITIGATION

The District is subject to various other legal actions in various stages of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate that there will be any material effect on the combined financial statements as a result of the cases presently in progress, except as described elsewhere in this report.

ELIZABETHTOWN INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE K - INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies, which are retrospectively rated which includes Workers' Compensation insurance.

NOTE L - RISK MANAGEMENT

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. The public entity risk pools operate as common risk management and insurance programs for all school district and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the members on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE M - DEFICIT OPERATING BALANCES

There are no funds of the District that currently have a deficit fund balance. However, the following funds had operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance.

Special Revenue Fund	\$(1,877)
Construction Fund	\$(1,270,709)

NOTE N - COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the School District at risk for a substantial loss (contingency).

ELIZABETHTOWN INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONCLUDED

June 30, 2005

NOTE O - TRANSFER OF FUNDS

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	General	Special Revenue	Technology Match	\$ 35,000
Operating	FSPK Fund	Construction	Construction	36,149
Operating	FSPK Fund	Debt Service	Debt Service	646,244
Operating	Food Service	General	Indirect Costs	55,450

NOTE P – INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at June 30, 2005, were for indirect costs owed to the General Fund by the Food Service Fund and consisted of the following individual fund receivables and payables:

	<u>Receivables</u>	<u>Payables</u>
General Fund:		
Food Service Fund	\$ 11,610	\$ -
Food Service Fund:		
General Fund	<u> </u>	<u>11,610</u>
	<u>\$ 11,610</u>	<u>\$ 11,610</u>

NOTE Q – ON-BEHALF PAYMENTS

The District receives on-behalf payments from the State of Kentucky for items including retirement and insurance. The amount received for the fiscal year ended June 30, 2005, was \$1,899,819.

NOTE R – PRIOR PERIOD ADJUSTMENTS

The District decreased the beginning fund balance of the General Fund by \$22,867 to record accrued payroll taxes payable that were written off in the prior year. The District decreased the beginning fund balance of the Special Revenue Fund by \$9,336 to write off a grant. The District decreased the beginning net assets of the private purpose trust funds by \$2,000 to remove a donation deposited in error. The District decreased the government-wide governmental activities net assets by \$116,929 (\$121,929 decrease for unrecorded vacation leave and \$5,000 increase for an adjustment to long-term bonds payable). There was no effect on revenues or expenditures from any of these adjustments.

REQUIRED SUPPLEMENTARY INFORMATION

ELIZABETHTOWN INDEPENDENT SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL**

GENERAL FUND

Year Ended June 30, 2005

	<u>Original</u>	<u>Final</u>	<u>Actual</u>
Revenues:			
From local sources:			
Taxes:			
Property	\$ 2,020,035	\$ 2,248,078	\$ 2,301,008
Motor vehicle	193,447	158,291	188,960
Utilities	850,000	850,000	948,497
Tuition and fees	53,725	53,725	240,678
Earnings on investments	120,000	135,000	184,562
Other local revenues	23,750	23,750	80,778
Intergovernmental - State	7,143,840	7,202,996	9,121,158
Intergovernmental - Direct Federal	2,500	2,500	7,466
Total Revenues	<u>10,407,297</u>	<u>10,674,340</u>	<u>13,073,107</u>
Expenditures:			
Instruction	6,736,904	6,784,381	8,124,519
Support services:			
Student	306,704	306,548	419,372
Instruction staff	620,988	614,629	706,588
District administrative	456,048	460,154	580,705
School administrative	674,254	702,059	884,200
Business	121,190	509,218	412,672
Plant operation and maintenance	1,124,357	1,340,483	1,390,967
Student transportation	312,572	329,081	377,729
Central office	380,976		
Community service activities	41,080		
Other	1,771,172	1,767,734	42,768
Total Expenditures	<u>12,546,245</u>	<u>12,814,287</u>	<u>12,939,520</u>
Excess (Deficit) of Revenues over Expenditures	<u>(2,138,948)</u>	<u>(2,139,947)</u>	<u>133,587</u>
Other Financing Sources (Uses):			
Proceeds from sale of fixed assets			18,105
Operating transfers in	45,000	45,000	55,450
Operating transfers out	(35,000)	(35,000)	(35,000)
Total Other Financing Sources (Uses)	<u>10,000</u>	<u>10,000</u>	<u>38,555</u>
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	<u>(2,128,948)</u>	<u>(2,129,947)</u>	<u>172,142</u>
Fund balance, July 1, 2004	<u>2,128,948</u>	<u>2,129,947</u>	<u>3,249,116</u>
Fund balance, June 30, 2005	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,421,258</u>

Both inflows and outflows are equally different in the Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds by the amount of on-behalf payments of \$1,899,819.

ELIZABETHTOWN INDEPENDENT SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE- BUDGET AND ACTUAL

SPECIAL REVENUE FUND

Year Ended June 30, 2005

	Original	Final	Actual
Revenues:			
From local sources:			
Earnings on investments	\$ -	\$ -	\$ 2,503
Other local revenues			34,676
Intergovernmental - State	267,314	629,636	556,412
Intergovernmental - Indirect Federal	211,765	890,164	957,570
Total Revenues	479,079	1,519,800	1,551,161
Expenditures:			
Instruction	264,868	1,229,303	1,306,652
Support services:			
Student		22,879	20,515
Instruction staff	68,689	91,847	90,569
District administrative		5,651	5,733
Student transportation	1,719	21,530	16,429
Community service activities	139,803	148,500	148,140
Total Expenditures	475,079	1,519,710	1,588,038
Excess (Deficit) of Revenues over Expenditures	4,000	90	(36,877)
Other Financing Sources (Uses):			
Operating transfers in		23,123	35,000
Operating transfers out	(4,000)		
Total Other Financing Sources (Uses)	(4,000)	23,123	35,000
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	-	-	(1,877)
Fund balance, July 1, 2004			98,788
Fund balance, June 30, 2005	\$ -	\$ -	\$ 96,911

SUPPLEMENTARY INFORMATION

ELIZABETHTOWN INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF FIDUCIARY NET ASSETS

AGENCY FUNDS

June 30, 2005

	Morningside Elementary	Helmwood Heights Elementary	T.K. Stone Jr. High School	Elizabethtown High School	Total Agency Fund
Assets					
Cash and cash equivalents	\$ 17,090	\$ 15,669	\$ 52,325	\$ 63,811	\$ 148,895
Total Assets	<u>\$ 17,090</u>	<u>\$ 15,669</u>	<u>\$ 52,325</u>	<u>\$ 63,811</u>	<u>\$ 148,895</u>
Liabilities					
Accounts payable	\$ 1,649	\$ 1,874	\$ 1,348	\$ 590	\$ 5,461
Due to student groups	<u>15,441</u>	<u>13,795</u>	<u>50,977</u>	<u>63,221</u>	<u>143,434</u>
Total Liabilities	<u>\$ 17,090</u>	<u>\$ 15,669</u>	<u>\$ 52,325</u>	<u>\$ 63,811</u>	<u>\$ 148,895</u>

ELIZABETHTOWN INDEPENDENT SCHOOL DISTRICT

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES

ELIZABETHTOWN HIGH SCHOOL

YEAR ENDED JUNE 30, 2005

NAME OF ACTIVITY	CASH BALANCES July 1, 2004	RECEIPTS	DISBURSE- MENTS	CASH BALANCES June 30, 2005	ACCOUNTS RECEIVABLE AND DUE FROM OTHER FUNDS June 30, 2005	ACCOUNTS PAYABLE AND DUE TO OTHER FUNDS June 30, 2005	FUND BALANCES June 30, 2005
AP Chemistry	\$ -	\$ 1,000	\$ 29	\$ 971	\$ -	\$ -	\$ 971
AP Social Studies	-	2,019	1,872	147	-	-	147
Academic Team	67	-	-	67	-	-	67
American Field Service	-	-	-	-	-	-	-
Art	3	1	-	4	-	-	4
Art Club	83	433	504	12	-	-	12
Athletics	2,597	4,100	6,478	219	-	50	169
Baseball	761	2,106	2,867	-	-	-	-
Basketball	651	14,110	14,761	-	-	-	-
Best, "Buzzy" Scholarship	-	-	-	-	-	-	-
Beta Club	770	3,377	2,745	1,402	-	-	1,402
Bookstore	2,997	336	1,149	2,184	-	-	2,184
Boy's Soccer	1	2,065	2,066	-	-	-	-
Building and Supplies	491	4,003	4,323	171	-	78	93
Business Education	49	-	-	49	-	-	49
Camps, Athletics	9,575	9,309	10,709	8,175	-	-	8,175
Cheerleader Club	6,842	2,550	5,496	3,896	-	-	3,896
Cheerleader/Athletics	1	225	226	-	-	-	-
Class of 1960	24	-	-	24	-	-	24
Class of 2005	-	1,000	-	1,000	-	-	1,000
Co-ed Y Club	340	2,194	2,534	-	-	-	-
Concessions Athletic	5,116	14,813	19,772	157	-	-	157
CPR First Aid	65	-	-	65	-	-	65
Cross Country Club	1	208	209	-	-	-	-
Drama	3,119	1,239	1,618	2,740	-	40	2,700
Duplicating	5	-	-	5	-	-	5
Educate a Child	134	-	-	134	-	-	134
English	151	414	413	152	-	-	152
Environmental Club	441	-	-	441	-	-	441
Family and Consumer Science	-	-	-	-	-	-	-
Fellowship of Christ	169	-	-	169	-	-	169
Flower Fund	45	190	171	64	-	-	64
Football	491	21,694	22,157	28	-	-	28
Foreign Language	41	358	350	49	-	-	49
Foreign Language Club	38	1,351	1,360	29	-	-	29
Freshman Class	216	105	-	321	-	-	321
Future Business Leaders	71	653	632	92	-	-	92
FCCLA	-	-	-	-	-	-	-
Girl's Basketball	1	6,374	6,375	-	-	-	-
Girl's Soccer	1	1,994	1,995	-	-	-	-
Golf	-	1,660	1,660	-	-	-	-
Gridiron	13	-	-	13	-	-	13
Guidance and Counseling	1,129	9,787	9,126	1,790	-	-	1,790
Industrial Arts	326	-	326	-	-	-	-
Instruction	-	-	-	-	-	-	-
Interact Club	124	29	-	153	-	-	153
Interest	4,079	6,370	10,229	220	-	-	220
Johnson Jr., A.C.	-	-	-	-	-	-	-
Junior Class	8,615	4,695	5,332	7,978	-	-	7,978
Kerr-Beeler	531	1,834	1,767	598	-	-	598
Kerrick Science Scholarship	1,241	-	-	1,241	-	-	1,241
KUNA	-	10,332	10,332	-	-	-	-
Lance Machines	940	271	1,171	40	-	-	40
Landscaping	-	1,000	975	25	-	-	25
Library	1,554	-	344	1,210	-	-	1,210
Lock Fund	1,208	296	46	1,458	-	15	1,443
Mathematics	226	-	-	226	-	-	226
Miscellaneous	35	22,653	21,977	711	-	150	561
Office and Teachers	5	7	12	-	-	-	-

ELIZABETHTOWN INDEPENDENT SCHOOL DISTRICT

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES

ELIZABETHTOWN HIGH SCHOOL - CONCLUDED

YEAR ENDED JUNE 30, 2005

NAME OF ACTIVITY	CASH BALANCES July 1, 2004	RECEIPTS	DISBURSE- MENTS	CASH BALANCES June 30, 2005	ACCOUNTS RECEIVABLE AND DUE FROM OTHER FUNDS June 30, 2005	ACCOUNTS PAYABLE AND DUE TO OTHER FUNDS June 30, 2005	FUND BALANCES June 30, 2005
Owen (Duke) Memorial	-	-	-	-	-	-	-
Panther Prowler	-	-	-	-	-	-	-
Parking	-	136	-	136	-	-	136
Pep Club	624	3,292	3,483	433	-	-	433
Physical Education	3,990	750	4,556	184	-	-	184
Picture	2,902	1,795	4,697	-	-	-	-
Science	\$ 1,203	\$ 7,103	\$ 5,960	\$ 2,346	\$ -	\$ -	\$ 2,346
Senior Class	75	588	572	91	-	-	91
Social Committee	753	-	753	-	-	-	-
Social Studies	150	-	150	-	-	-	-
Softball	1	257	258	-	-	-	-
Sophomore Class	128	-	-	128	-	-	128
Spanish Honor Society	100	-	-	100	-	-	100
Special Crafters	4	1,178	650	532	-	-	532
Special Functions	701	21,600	21,865	436	-	172	264
Speech	846	85	909	22	-	-	22
Student Council	1,972	1,713	1,383	2,302	-	-	2,302
SADD	-	-	-	-	-	-	-
Swimming	1	-	1	-	-	-	-
Team Leadership Council	-	-	-	-	-	-	-
Television and Radio	-	3,072	3,072	-	-	-	-
Tennis	127	317	444	-	-	-	-
Textbook Rental	470	10,644	10,624	490	-	-	490
Track	-	-	-	-	-	-	-
Vending Machines	1,163	1,922	3,085	-	-	-	-
Faculty	1,594	1,253	2,658	189	-	-	189
Technology Student	-	727	651	76	-	-	76
Band	132	60	35	157	-	-	157
Rewards Program	4,433	25,087	29,520	-	-	-	-
Project Graduation	31	10,914	5,465	5,480	-	85	5,395
Prom	-	11,440	10,741	699	-	-	699
Vocal Music	1,266	1,686	2,916	36	-	-	36
Vocal Music Dress	1,449	-	492	957	-	-	957
Vocational Funds	207	-	41	166	-	-	166
Volleyball	-	3,477	3,477	-	-	-	-
Writing Program	-	-	-	-	-	-	-
Yearbook	9,545	24,183	23,312	10,416	-	-	10,416
TOTAL	<u>\$ 89,250</u>	<u>\$ 290,427</u>	<u>\$ 315,866</u>	<u>\$ 63,811</u>	<u>\$ -</u>	<u>\$ 590</u>	<u>\$ 63,221</u>

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

ELIZABETHTOWN INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2005

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR / PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS THROUGH GRANTOR'S NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Passed Through State Department of Education:			
National School Lunch	10.555	575-04-02	\$ 104,223
		575-05-02	273,913
School Breakfast	10.553	576-04-05	4,646
		576-05-05	108,441
Passed Through State Dept. of Agriculture			
Food Distribution (In-Kind Commodities)	10.555	N/A	47,139
TOTAL U.S. DEPT. OF AGRICULTURE			<u>538,362</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Impact Aid	84.041	N/A	7,466
Passed Through State Department of Education:			
Title I	84.010	3104	5,981
		3105	268,622
Title I - Migrant	84.011	3114	9
		3115	4,294
Title V	84.298	3344	254
		3345	10,241
Title IIC	84.048	3484	51
		3484A	782
		3485	18,383
IDEA - Part B	84.027 *	3374	14,835
		3375	390,773
IDEA - Part B - Preschool	84.173 *	3434	3,715
		3435	17,791
Title IV	84.186	4064	787
		4065	2,748
Teacher Quality	84.367A	4014	2,244
		4015	96,356
Title II D	84.318X	4254	652
		4255	3,974
Language Acquisition	84.365	3455	1,359

ELIZABETHTOWN INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONCLUDED

YEAR ENDED JUNE 30, 2005

	<u>FEDERAL CFDA NUMBER</u>	<u>PASS THROUGH GRANTOR'S NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
Passed Through Cabinet for Workforce Development Job Coach	84.126A	3763 3765	1,571 22,026
School to Work	84.243	3793G 3794G 3795G	203 14,165 58,567
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>947,849</u>
<u>U.S. DEPARTMENT OF LABOR</u>			
Passed Through Lincoln Trail Area Development District			
Workforce Improvement Act	17.259	5885	<u>27,103</u>
TOTAL U.S. DEPARTMENT OF LABOR			<u>27,103</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,513,314</u>

ELIZABETHTOWN INDEPENDENT SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2005

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Elizabethtown Independent School District and is presented on the accrual basis of accounting for proprietary funds and the modified accrual basis of accounting for governmental funds. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I-Summary of Auditor's Results

Section II – Financial Statement of Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

ELIZABETHTOWN INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

June 30, 2005

NONE

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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Members of the Board of Education
Elizabethtown Independent School District
Elizabethtown, Kentucky

We have audited the basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Elizabethtown Independent Board of Education as of and for the year ended June 30, 2005, which collectively comprise the Elizabethtown Independent Board of Education's basic financial statements and have issued our report thereon dated September 15, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendices I, II and III of the Independent Auditor's Contract.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Elizabethtown Independent Board of Education's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Elizabethtown Independent Board of Education's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We also noted certain additional matters that we have reported to the management of Elizabethtown Independent Board of Education in a separate letter dated September 15, 2005.

This report is intended for the information of members of the Kentucky State Committee for School District Audits, the members of the Board of Education of Elizabethtown Independent School District, the Kentucky Department of Education and management and should not be used by anyone other than these specified parties.

Stiles, Carter & Associates

Certified Public Accountants
September 15, 2005

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

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Elizabethtown, Kentucky

Compliance

We have audited the compliance of Elizabethtown Independent School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. Elizabethtown Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Elizabethtown Independent School District's management. Our responsibility is to express an opinion on Elizabethtown Independent School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendices I, II and III of the Independent Auditor's Contract. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Elizabethtown Independent School District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Elizabethtown Independent School District's compliance with those requirements.

In our opinion, Elizabethtown Independent School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Elizabethtown Independent School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Elizabethtown Independent School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. In addition, the results of our tests disclosed no instances of noncompliance of specific state statutes or regulations identified in Appendix II of the Independent Auditor's Contract - State Audit Requirements.

This report is intended for the information of members of the Kentucky State Committee for School District Audits, the members of the Board of Education of Elizabethtown Independent School District, the Kentucky Department of Education, management and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Stiles, Carter & Associates

Certified Public Accountants
September 15, 2005

MANAGEMENT LETTER COMMENTS

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Elizabethtown, Kentucky

In planning and performing our audit of the basic financial statements of Elizabethtown Independent School District for the year ended June 30, 2005, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. A separate report dated September 15, 2005, contains our report on the District's internal control structure. This letter does not affect our report dated September 15, 2005, on the financial statements of the Elizabethtown Independent School District.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and their implementation is currently being reviewed. We will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Stiles, Carter & Associates

Certified Public Accountants
September 15, 2005

ELIZABETHTOWN INDEPENDENT SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS

June 30, 2005

UNCORRECTED PRIOR YEAR COMMENTS - NONE

CURRENT YEAR COMMENTS

Payroll – School Board Office

During our audit, we noted that the payroll department needs additional training. We also noted that the District responded to several notices from various taxing entities. Through proper training, these issues should be resolved.

Management Response

Management will provide proper training to the payroll department.

Vending Machine Inventory – School Activity Funds

During our audit, we noted that, at T.K. Stone Jr. High School and Elizabethtown High School, vending machine inventory is not being monitored as required by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education. These requirements emphasize that the vendor for full-service vending machines provide an inventory reconciliation to the school.

Management Response

Management will work with vendors to implement an inventory system.

Segregation of Duties in Handling Receipts and Paying Bills – School Activity Funds

During our audit, we noted that T.K. Stone Jr. High School did not comply with the segregation of duties requirements for handling receipts and Elizabethtown High School did not comply with segregation of duties requirements for handling receipts and paying bills as required by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

Management Response

Management will work with school personnel to help segregate financial responsibilities. However, due to limited size of staff, we will have to assume a certain amount of risk in this area.

Fundraising – School Activity Funds

During our audit, we noted that Elizabethtown High School did not complete the fundraising worksheet to reconcile the number of items taken, sold and returned as required by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

Management Response

Management will work with school personnel to ensure that the proper form is completed.

ELIZABETHTOWN INDEPENDENT SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS - CONTINUED

June 30, 2005

CURRENT YEAR COMMENTS

Organization of Invoices – School Activity Funds

During our audit, we noted that, at Elizabethtown High School, invoices were not timely filed in an organized manner. The school should ensure that an appropriate filing system is in place so that invoices are easily accessible.

Management Response

Management will work with school personnel to ensure that invoices are timely filed in an organized manner.

Cash Advances – School Activity Funds

During our audit, we noted that, at Elizabethtown High School, cash advances are not appropriately supported by an expense report and that unused cash is not returned immediately following the trip as required by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

Management Response

Management will work with school personnel to ensure that the appropriate forms are completed and that funds are returned immediately after the trip.

Concession Sales – School Activity Funds

During our audit, we noted that, at T.K. Stone Jr. High School and Elizabethtown High School, reasonable profits on concessions were not monitored as required by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

Management Response

Management will inform school personnel that concession sales are to be monitored using the Inventory Control Worksheet.

Inconsistent Posting – School Activity Funds

During our audit, we noted that, at Elizabethtown High School, there were frequent occasions where revenues were posted to an incorrect account. This results in incorrect financial reporting.

Management Response

Management will discuss this with school personnel to emphasize the importance of correct posting.

ELIZABETHTOWN INDEPENDENT SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS - CONTINUED

June 30, 2005

CURRENT YEAR COMMENTS - CONTINUED

Tournament Gate Receipts – School Activity Funds

During our audit, we noted that, for several tournament games in which Elizabethtown High School participated, there were no tournament receipts deposited to the particular sport's activity account or in other school activity accounts. We recommend that the school investigate this matter to determine if the school received a share of the game receipts and, if so, where the receipts were deposited.

Management Response

Management will investigate this matter to determine where the tournament receipts were deposited.

Tournament Tickets – School Activity Funds

During our audit, we noted, at Elizabethtown High School, not all boys basketball state tournament tickets purchased had a corresponding sale. The general procedure is for the tickets to be pre-sold; therefore, all tickets purchased should have a corresponding deposit. We recommend that management investigate the ticketing procedures.

Management Response

Management will investigate this matter to determine the ticketing procedures in place and .will make appropriate changes.

Purchases for Staff – School Activity Funds

During our audit, we noted that , at Elizabethtown High School, several purchases were made for staff items out of student monies which is prohibited by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

Management Response

Management will emphasize that only staff generated funds can be used for staff items.

Bookstore Inventory – School Activity Funds

During our audit, we noted that, at T.K. Stone Jr. High School, bookstore inventory was not monitored using the Inventory Control Worksheet contained in *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

Management Response

Management will inform the school to use the appropriate form.

ELIZABETHTOWN INDEPENDENT SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS - CONCLUDED

June 30, 2005

CURRENT YEAR COMMENTS - CONTINUED

Timely Deposits – School Activity Funds

During our audit, we noted that, at Morningside Elementary School, deposits are not made on a timely basis as prescribed by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

Management Response

Management will inform the school to make deposits on a timely basis.

Collection of Money – School Activity Funds

During our audit, we noted that, at Morningside Elementary School, teachers collect money from students, bring it to the office to lock in the safe and then pick it up the following day. This process continues until all students have paid and then the funds are remitted to the school treasurer. Funds should be given to the school treasurer on the day collected as prescribed by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

Management Response

Management will inform the school that all money collected be given to the school treasurer the day it is collected.

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State Committee for School District Audits
Members of the Board of Education
Elizabethtown Independent Board of Education
Elizabethtown, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Elizabethtown Independent School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements, as listed in the accompanying table of contents, and have issued our report thereon dated September 15, 2005. Professional standards require that we provide you with the following information related to our audit.

Our responsibility under auditing standards generally accepted in the United States of America, the standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendices I, II and III of the *Independent Auditors' Contract*.

As stated in our engagement letter dated July 1, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the basic financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud or illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our audit procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget Circular A-133 Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the District's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the District are described in Note A to the financial statements. We noted no transactions entered into by the District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most significant accounting estimate is the estimate for sick and vacation leave.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the District's financial reporting process (that is, cause future financial statements to be materially misstated). The audit adjustments, in our judgment, none of the adjustments we proposed, whether recorded or unrecorded, either individually or in the aggregate, do not indicate matters that could have a significant effect on the District's financial reporting process.

Disagreements With Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. There have been no disagreements during the course of our audit.

Consultations With Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to contact us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditor. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This report is intended solely for the use of the members of the Board of Education, Kentucky State Committee for School District Audits and management and is not intended and should not be used by anyone other than these specified parties.

Shiles, Carter & Associates

Certified Public Accountants
September 15, 2005